

Arizona Long Term Care System (ALTCS) Actuarial Memorandum

I. Purpose:

The purpose of this actuarial memorandum is to demonstrate that the ALTCS capitation rates were developed in compliance with 42 CFR 438.6(c). It is not intended for any other purpose.

II. Overview of Rate Setting Methodology:

The contract year ending 2009 (CYE09) rates were developed as a rate update from the previously approved contract year ending 2008 (CYE08) capitation rates and represent the contract period October 1, 2008, through September 30, 2009, which is twelve months.

In updating the ALTCS rates, various sources of information were used including encounter data, audited and quarterly financial statements, fee for service rate increases, changes in placement in Home and Community Based Settings (HCBS), and actual cost and utilization experience reported by program contractors (PC). For the trends, a cap amount was set to limit the negative and positive trends to reasonable levels.

The ALTCS program has two rate cells: dual and non-dual. Arizona Health Care Costs Containment System (AHCCCS) rates for the ALTCS population do not differ by gender and/or age, but do differ by Geographical Service Area (GSA).

The encounter and audited financial experience only include ALTCS Medicaid eligible expenses for ALTCS Medicaid eligible individuals. Non-covered services have been removed from the data. In addition, the experience includes reinsurance amounts and share of cost (SOC). AHCCCS will no longer pay additional payments for HIV/AIDS members and those costs have been rolled into the base rates.

The general process for the prospective rate calculation involves trending the CYE08 capitation rates to the midpoint of the effective period, which is April 1, 2009, and applying the mix percentage (see Section V). The next step involves adjustments for share of cost offsets and, if applicable, any program changes. In the final step, the projected administrative expenses, risk/contingency margin and premium tax are added to the projected claim per member per month (PMPMs) to obtain the capitation rates. Each step is described in the sections below. There are also separate sections describing the prior period coverage (PPC) population and the Acute Care Only population. Due to experience emerging differently than expected for the new rate cells (i.e. dual and non-dual, implemented CYE07), AHCCCS continues to perform a recalibration of the two rate cells as well as some recalibrations of the categories of service. The recalibrations were performed by using CYE07 encounter data and CYE08 year-to-date (YTD) financial information, trended forward.

III. Projected Trend Rates

The trend analysis includes both the financial and encounter data experiences. Financial data experience is from the contract year ending September 2005 through March 2008. Encounter data experience is from the contract year ending September 2005 through June 2007. The claim PMPMs were computed on a yearly basis and a trend factor was calculated. These encounter and financial trend factors were compared with trend rates from sources such as the changes to the State's fee-for-service (FFS) schedules and PCs' subcontracted rates. The trend rates developed were used to bring the base encounter data to the effective midpoint of the contract year.

The final cost trends for the Nursing Facility (NF) component were selected from changes to the State's FFS schedule effective October 1, 2008, as well as changes to the FFS schedules over the past few years that are not reflected in the encounter data. The final cost trend rates for Home and Community Based (HCBS) services include the changes to the State's upcoming FFS schedule and past increases not reflected in the encounter data, as well as trend information from the PC audited financial statements and encounters. Utilization trends for both the NF and HCBS components were based on encounter data experience. For the Acute Care component, the trends were developed using both the encounters and financial information. The Case Management trends were developed using the AHCCCS Case Management model as well as looking at financial data. The trend rates used in projecting the claim costs are identified in Table I.

Table I: Average Annual Trend Rate before Mix and SOC

Service Category	Combine (Dual and Non-Dual)
Nursing Facility	6.6%
HCBS	5.4%
Acute	-10.2%
Case Management	2.6%

IV. Projected Gross Claim PMPM

The CYE08 rates reflect the 12-month period of October 1, 2007, through September 30, 2008, therefore, the midpoint of the CYE08 rate period is April 1, 2008. The contract period for CYE09 rates is October 1, 2008, through September 30, 2009, so the midpoint is April 1, 2009. The claims' PMPMs were trended from the midpoint of the CYE08 rate period to the midpoint of the CYE09 rate period.

V. Mix Percentage

The CYE09 combined mix percentages are set using a combination of current placement percentages, program growth/saturation and the number of ALTCS members. These sources were reviewed by contractor and by county, over an 18-

month period. A separate mix percentage for individuals in the home and individuals in alternative community settings was developed. The HCBS and NF placement percentages can be found in Table II.

**Table II: Combined Mix Percentages Weighted
by Projected Member Months from CYE09**

GSA	CYE08		CYE09		Difference HCBS Mix
	NF Mix	HCBS Mix	NF Mix	HCBS Mix	
GSA 40 (Pinal, Gila)	32.5%	67.5%	31.0%	69.0%	1.5%
GSA 42 (LaPaz, Yuma)	45.6%	54.4%	46.1%	53.9%	-0.5%
GSA 44 (Apache, Coconino, Mohave, Navajo)	37.2%	62.8%	37.8%	62.2%	-0.6%
GSA 46 (Cochise, Graham, Greenlee)	40.0%	60.0%	40.5%	59.5%	-0.5%
GSA 48 (Yavapai)	44.7%	55.3%	43.7%	56.3%	1.0%
GSA 50 (Pima, Santa Cruz)	37.7%	62.3%	37.4%	62.6%	0.3%
GSA 52 (Maricopa)	34.3%	65.7%	32.5%	67.5%	1.8%
Statewide	35.9%	64.1%	34.7%	65.3%	1.2%

VI. State Mandates, Court Ordered Programs, Program Changes and Other Changes

Impacts of several program changes were incorporated in the CYE09 capitation rates due to State and Federal mandates described below.

Adult Dental

State legislation, signed into law in 2007, requires AHCCCS to provide non-emergency (basic and preventive) dental services for ALTCS adults up to a limit of \$1,000 annually per elderly and physically disabled (EPD) member starting October 1, 2007. In the 2008 legislative session, the State Legislature did not renew this program. The statewide impact to the ALTCS EPD program is a decrease of approximately \$7.7 million or \$26.31 PMPM.

Outlier Hospital Reimbursement Rates

This amendment of State law, also passed in the 2007 legislative session, changes the methodology for the payment of claims with extraordinary operating costs per day. It stipulates that AHCCCS shall phase in the use of the most recent statewide urban and rural average Medicare or Medicare approved cost-to-charge ratios to qualify and pay extraordinary operating costs starting October 1, 2007. October 1, 2008, begins the second year of the three-year phase-in. Once fully-phased in, those cost-to-charge ratios will be updated annually. The two year impact to the EPD program is a decrease of approximately \$740,000.

Hospital Inpatient and Outpatient Rate Freeze

State legislation, signed into law in 2008, mandates that "For rates effective October 1, 2008, through September 30, 2009, the Arizona health care cost containment system administration shall not increase the inpatient hospital tier per diem rates,

inpatient hospital outlier thresholds or aggregate outpatient hospital fee schedule rates above the rates in effect on September 30, 2008...". This produces a savings of approximately \$3 million to the ALTCS EPD program.

Service Shifts to Children's Rehabilitative Services (CRS)

Starting October 1, 2008, AHCCCS is shifting the responsibility for payment of specific services to the CRS contractor. When those services are directly related to a member's CRS condition, these services include coverage of limited biotech drugs, cochlear implants, motorized wheelchairs, and emergency department treatment at CRS-contracted facilities, CRS will also begin to cover acute conditions within the scope of practice of the CRS specialist when diagnosed and treated at the time of a CRS visit. Some of the shifting services are new to the CRS population (e.g. certain biotech drugs); thus they are not included in the EPD base rates. For those services that are in the EPD base rates, the statewide impact to the EPD program due to shifting services to CRS is a decrease of approximately \$77,000.

Smoking Cessation

Starting October 1, 2008, in accordance with Laws 2008, Chapter 131, AHCCCS is adding coverage for eligible tobacco cessation products which include nicotine replacement therapy (NRT) and tobacco use medications for eligible Title XIX AHCCCS members who wish to stop tobacco use and who are enrolled in a tobacco cessation program offered by the Arizona Department of Health Services. The statewide impact to the EPD program is an increase of approximately \$121,000.

VII. Projected Net Claim PMPM

The Nursing Facility and Home and Community Based Services projected gross claim PMPMs were adjusted for the mix percentages. The projected gross claims PMPMs were discounted for the recipients' Share of Cost. The SOC component is fully reconciled with each PC. The reinsurance offset is already included in the acute care component of the rates for the EPD population.

VIII. Administrative Expenses and Risk Contingency

The administrative expenses range from 5% to 8% of medical expenses plus case management. The risk contingency is 2% of the total capitation rate, excluding SOC.

IX. Proposed Capitation Rates and Their Impacts

The proposed capitation rates for the EPD population equal the sum of the projected net claim PMPM (in Section VII) and the projected administrative expenses and risk contingency PMPM (in section VIII) divided by one minus the two percent premium tax. Table III shows the proposed capitation rates for the EPD population statewide, combining dual and non-dual risk groups. Table IV shows the proposed capitation rates for the EPD population statewide for the dual and non-dual risk groups.

Table III: Statewide Projected Net Capitation PMPM EPD Combined

Service Category	Gross CYE08 Rate	Mix	Net CYE08 Rate	% Gross Change	% Net Change	Gross CYE09 Rate	Mix	Net CYE09 Rate
Nursing Facility	\$ 4,818.11	35.9%	\$ 1,729.70	6.6%	3.1%	\$ 5,138.39	34.7%	\$ 1,783.02
Share of Cost			\$ (254.32)		4.4%			\$ (265.56)
Net Nursing Facility			\$ 1,475.38		2.9%			\$ 1,517.46
Home and Community (HCBS)	\$ 1,536.99	64.1%	\$ 985.21	5.4%	7.3%	\$ 1,619.53	65.3%	\$ 1,057.55
Case Management			\$ 110.63		2.6%			\$ 113.54
Acute Care			\$ 408.61		-10.2%			\$ 367.03
Administration			\$ 212.25		2.5%			\$ 217.46
Risk Contingency			\$ 63.84		2.5%			\$ 65.46
Premium Tax			\$ 66.45		2.5%			\$ 68.13
Net Capitation PMPM			\$ 3,322.37		2.5%			\$ 3,406.63

Table IV: Statewide Projected Net Capitation PMPM Dual and Non-Dual EPD Rates

Service Category	Gross CYE09 EPD Dual Rate	Mix	NET CYE09 EPD Dual Rate	Gross CYE09 EPD NonDual Rate	Mix	NET CYE09 EPD NonDual Rate
Nursing Facility	\$ 5,074.69	36.9%	\$ 1,872.56	\$ 5,757.04	22.6%	\$ 1,301.09
Share of Cost			\$ (306.92)			\$ (42.97)
Net Nursing Facility			\$ 1,565.64			\$ 1,258.12
Home and Community (HCBS)	\$ 1,542.17	63.1%	\$ 973.11	\$ 1,953.51	77.4%	\$ 1,512.02
Case Management			\$ 114.23			\$ 109.85
Acute Care			\$ 131.50			\$ 1,634.72
Administration			\$ 197.62			\$ 324.24
Risk Contingency			\$ 59.64			\$ 96.78
Premium Tax			\$ 62.08			\$ 100.73
Net Capitation PMPM			\$ 3,103.82			\$ 5,036.46

X. Acute Care Only Members

As in prior years, members who are only eligible for the acute care services in the ALTCS program will be paid the acute care component plus the case management and administrative components. Since the reinsurance policy is the same for these members as for the other ALTCS members, the same reinsurance offset is appropriate.

XI. Prior Period Coverage (PPC) Rates

PPC rates cover the period of time from the effective date of eligibility to the day a member is enrolled with the Contractor. PPC rates are reconciled to a ten percent profit/loss corridor.

AHCCCS used the actual PPC cost and PPC enrollment data for CYE05, CYE06 and 9 months of CYE07. This data was utilized as the base in the development of the CYE09 PPC rates. Historical trends were developed and reviewed for appropriateness. Due to the relatively short PPC time period, AHCCCS actuaries analyzed the data by combining rate cohorts or geographic regions to enhance statistical credibility when needed.

XII. HIV/AIDS Supplemental Payment

As of October 2008, AHCCCS will no longer reimburse its contractors with a separate HIV/AIDS Supplemental Payment (HASP) for enrollees that have contracted the HIV/AIDS virus. This supplemental payment was originally developed to cover the costs of HIV/AIDS medications and lab testing. For CYE09 AHCCCS reviewed the current HIV/AIDS supplemental payment costs and encounters. The analysis revealed that the HIV/AIDS encounters have been consistent, without large fluctuations, thus indicating that the data can be rolled into the rates rather than maintaining a supplemental payment. Therefore AHCCCS is removing the HIV/AIDS Supplemental Payment for CYE09 and including the costs for this in the acute component base rates. Statewide impact is budget neutral.

XIII. Proposed Capitation Rates and Budget Impact

Table V includes the net capitation rates on a statewide basis for all rate cells as well as the estimated budget impact based off of CYE09 projected member months. Appendix I shows dual and non-dual EPD rates by county and program contractor.

Table V: Proposed Capitation Rates and Budget Impact

Rate Cell	CYE09 Projected MMs	CYE08 Rate	CYE09 Rate	Based on CYE09 Annualized Projected Member Months		Percentage Impact on CYE 08 estimated capitation
				Estimated CYE08 Capitation	Estimated CYE09 Capitation	
EPD	283,792	\$ 3,322.37	\$ 3,406.63	\$ 942,864,336	\$ 966,775,913	2.5%
PPC	9,325	\$ 929.05	\$ 1,004.44	\$ 8,663,438	\$ 9,366,382	8.1%
Acute Only	4,518	\$ 552.31	\$ 529.62	\$ 2,495,083	\$ 2,392,557	-4.1%
HIV/AIDS ¹	310	\$ 1,051.86	\$0.00	\$ 326,077	\$ -	-100.0%
Total				\$ 954,348,933	\$ 978,534,853	2.5%

1) HIV/AIDS member months will be 0 in CYE 2009. Displayed above are CYE 2008 member months for HIV/AIDS solely for the purpose of calculating a CYE 2008 Estimated Capitation Total.

XIV. CMS Rate Setting Checklist

1. Overview of rate setting methodology

AA.1.0: Overview of rate setting methodology

AHCCCS is performing a rate update from the previously approved contract year ending 2008 (CYE08) under 42 CFR 438.6(c). Please refer to Section II.

AA.1.1: Actuarial certification

Please refer to Section XV.

AA.1.2: Projection of expenditure

Please refer to Section XIII.

AA.1.3: Procurement, prior approval and rate setting

AHCCCS is operating under the Sole Source contracting method.

AA.1.5: Risk contract

The contract is an at risk contract.

AA.1.6: Limit on payment to other providers

AHCCCS makes no additional payment to the providers, except for Disproportionate Share Hospital (DSH), Graduate Medical Education (GME) and Critical Access Hospitals. GME is paid in accordance with state plan. DSH and Critical Access Hospital payments are paid in accordance with Waiver Special Terms and Conditions. None of the additional payments to the providers were included in the capitation calculation.

AA.1.7: Rate modification

Please refer to Sections III, V, VI, VII, X, XI, XII and XIII.

XV. Actuarial Certification of the Capitation Rates:

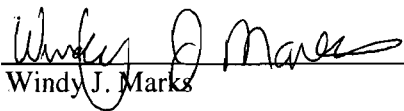
I, Windy J. Marks, am an employee of Arizona Health Care Cost Containment System (AHCCCS). I am a Member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. I meet the qualification standards established by the American Academy of Actuaries and have followed the practice standards established from time-to-time by the Actuarial Standards Board.

The rates were developed using generally accepted actuarial principles and practices and are considered to be actuarially sound. The rates were developed to demonstrate compliance with the CMS requirements under 42 CFR 438.6(c) and are in accordance with applicable laws and regulations. The rates are appropriate for the Medicaid populations covered and Medicaid services to be furnished under the contract. The rates may not be appropriate for any other purpose. The documentation has been included with this certification. The actuarially sound capitation rates that are associated with this certification are effective for the twelve-month period beginning October 1, 2008.

The actuarially sound capitation rates are a projection of future events. It may be expected that actual experience will vary from the values in the rates.

In developing the actuarially sound capitation rates, I have relied upon data and information provided by the Program Contractors and the AHCCCS internal databases. I have accepted the data without audit and have relied upon the Program Contractors auditors and other AHCCCS employees for the accuracy of the data.

This actuarial certification has been based on the actuarial methods, considerations, and analyses promulgated from time to time through the Actuarial Standards of Practice by the Actuarial Standards Board.


Windy J. Marks

09-16-08
Date

Fellow of the Society of Actuaries
Member, American Academy of Actuaries